

Hampshire Fire and Rescue Authority

Governance Committee

Item 7

24 March 2011

Internal Audit Strategy 2011-14 and Strategic Audit Plan

Reference: 2781

Report of the Treasurer

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1 Summary

- 1.1 The current five year Internal Audit Strategy has been in place since 2008, however given a number of significant changes during 2010, a fundamental review is required for 2011 and beyond.
- 1.2 The revised audit approach will operate at a strategic level providing a value adding, and proportionate level of assurance aligned to Hampshire Fire and Rescue Authority's objectives.
- 1.3 The ongoing endorsement and sponsorship of the audit approach at member / Senior Management Team level will continue to assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised.
- 1.4 The purpose of this paper is to provide the Governance Committee with an overview of the revised Internal Audit Strategy 2011-2014 and Strategic Audit Plan and to highlight key changes to the internal audit focus and approach.
- 1.5 The attached appendices provide a copy of the revised Internal Audit Strategy to be introduced from 1 April 2011, the Internal Audit Plan for 2011/12 to 2013/14 and the amended Service Level Agreement.

2 Recommendations

- 2.1 That the Governance Committee approves the Internal Audit Strategy 2011-2014.
- 2.2 That the Governance Committee endorses the Internal Audit Plan for 2011/12 to 2013/14.
- 2.3 That the Governance Committee approves the changes to the Service Level Agreement.

3 Background

- 3.1 The current five year Internal Audit Strategy has been in place since 2008/09 and reviewed annually thereafter. However, given the significant economic challenges facing Hampshire Fire and Rescue Authority, the appointment of a new Treasurer and changes to the internal audit team, outlined below, a fundamental review of the Internal Audit Strategy has been undertaken for 2011/12 and beyond.
- 3.2 On 1 November 2010 Hampshire County Council and Southampton City Council agreed to a collaborative approach for the provision of a shared internal audit service.
- 3.3 The agreement introduces a shared Chief Internal Auditor role across both authorities in which three days a week are directed to fulfilling responsibilities at Hampshire County Council and two days at Southampton City Council.
- 3.4 This initiative provides further scope to develop the shared service approach to best utilise areas of expertise across both authorities and generate economies of scale through training and development. It is proposed, however, that Karen Shaw continues to act as Chief Internal Auditor for Hampshire Fire and Rescue Authority.
- 3.5 The Internal Audit Service at Hampshire County Council currently operate in accordance with the CIPFA 'Code' as reported by the District Auditor who stated that *'internal audit meets all required standards and their work can be relied upon for the purposes of my audit'*.
- 3.6 However, the Team operate in a very traditional manner to a comprehensive Internal Audit Strategy. This focuses upon detailed audits which check specific compliance as opposed to operating at a strategic level adding maximum value to the organisation.
- 3.7 This report presents a review of the Internal Audit Strategy (Appendix 1) and key changes to the internal audit focus and approach to take effect from 1 April 2011. The resulting internal audit plan is attached at Appendix 2.
- 3.8 The strategic audit approach has been significantly adapted to ensure it:
 - aligns with Hampshire Fire and Rescue Authority objectives;
 - is proportionate and focused; and

- adds maximum value to the organisation.
- 3.9 Minor changes have been made to the Service Level Agreement to reflect the new Internal Audit Strategy and this is attached at Appendix 3 for approval (changes are shaded).

4 Finance / Performance

- 4.1 The revised audit approach incorporates some significant departures from current practice:

Staffing

- 4.2 A restructure of the internal audit team will adopt a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach will ensure an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise. A nominated Audit Manager will however continue to manage the delivery of the contract.

Establishment Visits

- 4.3 In the past, internal audit has routinely undertaken cyclical reviews of Hampshire Fire and Rescue Authority establishments, and although these have reduced in recent years following the introduction of thematic reviews, cyclical reviews of whole-time establishments have continued. These reviews are predominantly classified as low priority and analysis has verified that there have been few significant issues arising.
- 4.4 To ensure that the use of audit resources are optimised, it is proposed that routine establishment reviews are removed from the plan and that a proportionate level of resource continue to be assigned to themed establishment reviews in which a representative sample of establishments will be selected and key risk areas reviewed. Those establishments sampled for inclusion as part of the thematic review will receive specific feedback on the outcomes of the audit with key observations disseminated across all relevant establishments.
- 4.5 This will enable all relevant establishments to benefit from good practice identified and to act on observations resulting in a strengthened system of internal control and improved management of risk.
- 4.6 There may from time to time, be occasions when it would be beneficial and supportive to carry out individual establishment reviews. Our approach will therefore remain flexible to accommodate such requests.

Low Priority Reviews

- 4.7 Internal audit focus should be proportionate and appropriately aligned.
- 4.8 Currently all low priority reviews are incorporated within the five year strategic plan to ensure the whole of the audit universe is reviewed within that timeframe. The revised strategic plan will not incorporate low priority reviews.
- 4.9 All review areas will remain within the audit universe and be reassessed on an annual basis however will not be routinely incorporated if continued to be assessed as a low priority. The plan will remain flexible to accommodate changes to the risk environment and to respond to reactive counter fraud work and other unplanned enquiries.

Reporting

- 4.10 The audit report format is currently under review to ensure a focused and value adding document, appropriate to its target audience.
- 4.11 The revised report format will be implemented in accordance with the introduction of the revised strategy and strategic audit plan (April 2011).

Audit Commission

- 4.12 These changes have been discussed with the District Auditor who raised no issues of concern regarding the proposed new strategy and approach. We will continue to liaise with the Audit Commission to ensure that use of audit resources are optimised and unnecessary duplication is avoided.

5 People Impact assessment

- 5.1 The proposals in this report are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1998 and the Race Relations (Amendment) Act 2000.

6 Resource implications

- 6.1 The cost of internal audit is provided for in the Authority's revenue budget. Application of the revised internal audit strategy has resulted in a 25% reduction in the plan for 2011/12 compared to the original plan for 2010/11 (a saving of £21,500).

Section 100 D – Local Government Act 1972 – background papers

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

Published works.

Documents which disclose exempt or confidential information as defined in the Act.

None